COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CENTER RIDGE WATER DISTRICT, INC. FOR AN ADJUSTMENT OF RATES PURSUANT TO THE ALTERNATIVE RATE FILING PROCEDURE FOR SMALL UTILITIES	)))))	CASE NO. 2010-00397

ORDER

Center Ridge Water District, Inc. ("Center Ridge") has filed an application for rehearing of the Commission's Order of August 11, 2011. The Attorney General ("AG") has filed a response in opposition to this application. Having considered the application and the response thereto, we find that application should be granted in part and denied in part. We establish a monthly rate of $22.79.

In its application for rehearing, Center Ridge argues that its monthly rate fails to reflect certain transportation expenses, fees for regulatory consulting services, and the purchase of chlorination equipment. While Center Ridge raised the issue of transportation expenses in its application for rate adjustment, which it filed on October 8, 2010, its claims regarding regulatory consultant expenses and chlorination equipment are presented for the first time in its application for rehearing. Center Ridge argues that its submission on rehearing of evidence regarding the latter two subjects is appropriate since this evidence could not have been brought to the Commission's attention prior to the issuance of the Order of August 11, 2011.

In our Order of August 11, 2011, we found that the reasonable level of transportation expense for the test-period was $12,965. We based this amount upon our finding that Center Ridge's manager traveled approximately 64 miles daily to inspect Center Ridge's water treatment and pumping stations and applying a mileage reimbursement rate of $0.555 per mile. In the absence of any documentary evidence, we made no allowance for additional travel that Center Ridge claimed.

Center Ridge alleges several errors in our calculation of the transportation expense. It contends that the route that the Commission used to calculate the travelled distance for daily inspections was incorrect and non-existent roads and some dirt roads that are not easily traveled. It argues that the Commission's route is 0.4 miles shorter than the actual route. Center Ridge further contends that the Commission failed to consider transportation expenses related to daily chlorine checks, the transportation of water samples to laboratories, water main repairs, and obtaining supplies.

The Commission has reviewed the computer software used to develop the route upon which it determined the distance for daily inspections. As the software does not readily distinguish between concrete or asphalt roads and dirt roads, the Commission will accept the proposed correction and adjust transportation expense to reflect 146 additional miles travelled annually.

As to the expenses for transportation of water samples to the laboratories, the Commission finds sufficient evidence in the record to support the occurrence of two trips monthly from its offices to deliver samples for testing. Accordingly the Commission has adjusted transportation expense to reflect an additional 3,120 miles travelled annually.

As to the remaining transportation expenses, Center Ridge has yet to provide any evidence to support or demonstrate that the alleged trips for daily chlorine checks or obtaining supplies actually occurred. As we noted in our Order of August 11, 2011, some evidence, such as a mileage log or other written record, is necessary to support its claim.

Center Ridge requests that adjusted test-period operating expenses be increased by $3,000 to reflect its decision to enter into an arrangement with Kentucky Small Utility Consulting to "provide ongoing financial, regulatory, and strategic advice and assistance."[1] Under the terms of the proposed agreement, Center Ridge would "enter into a retainer arrangement costing $250 per month."[2]

Opposing the proposed adjustment, the AG argues that it reflects activity that occurred not only outside of the test-period, but after the issuance of a final order in this proceeding. He asserts that for the Commission to properly consider the proposed arrangement, Center Ridge should have entered into the arrangement prior to its application or at least evidenced its desire to enter such an arrangement while its application was pending before the Commission. He asserts that we should not consider this post-test-year development because "it encourages hedging of material information bearing upon the reasonableness of other expenses."[3] If the Commission should consider this proposal, the AG further argues, it should reexamine the amount of the level of the owner/manager fee that has been allowed recovery in the approved rate.

We agree that the proposed adjustment is well outside the test-period and should be denied. Center Ridge proposed as its test-period the 12-month period ending December 31, 2009. It filed its application on October 11, 2010. We issued a final decision on the application on August 11, 2011. Based upon the supporting documents

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[1] Letter from William Duncan to Executive Director, Kentucky Public Service Commission (Aug. 29, 2011) at 2.

[2] *Id.*

[3] Attorney General's Response to Applicant's Rehearing Request at 2.

submitted with Center Ridge's application for rehearing, the proposed arrangement appears to have first been proposed on August 22, 2011 – 11 days after the issuance of a final order. While the Commission may make adjustments for known and measurable changes that occur in a utility's operation following the end of the test period, the changes must occur within a reasonable time after the close of the test period and while the application is pending before the Commission. The proposed adjustment does not meet this criterion. To accept such a late proposal would encourage utilities to continually revise and modify their applications and make ratemaking a much more difficult, complex, and costly effort.

Moreover, we find that the proposed adjustment is neither known nor measurable. Center Ridge has not entered into any agreement or arrangement with the consulting firm nor obligated itself to subscribe to the offered service. There is no assurance that the proposed expense would actually be incurred.

Finally, Center Ridge requests that the Commission increase its adjusted operating expense by $3,603 to reflect the cost to install new chlorination equipment. It asserts that, prior to the issuance of the Order of August 11, 2011, the Kentucky Division of Water ("DOW") directed Center Ridge to install such equipment and that it lacks sufficient cash flow to make the installation.

For the same reasons as noted above, we deny this request. The request for the expenditure comes over 18 months after the close of the test period and 10 months after the filing of the application. Moreover, the record does not support Center Ridge's contention that DOW has ordered Center Ridge to acquire the equipment in question nor has Center Ridge provided any evidence to support that the purchase of such equipment is the most reasonable means to correct the alleged deficiencies in Center Ridge's operations.

The Commission notes that by our Order of August 11, 2011, Center Ridge was directed to file with the Commission a written report in which it describes its efforts to refund all monies collected in excess of the rate approved in that Order. Center Ridge submitted a report that contained no details regarding its refund. We find that Center Ridge should supplement its earlier submission with a written report that identifies the total amount refunded, the method by which refunds were made (e.g., payment or billing credit), and the date on which refunding was completed.

Having reviewed the application for rehearing and being otherwise sufficiently advised, the Commission finds that:

1. Center Ridge's transportation expense should be increased by $1,813[4] to $14,778.[5]

2. Center Ridge's total pro forma operating expenses are $83,014.[6]

3. To meet its reasonable operating expenses and depreciation expense and provide for reasonable equity growth, Center Ridge requires a monthly rate that will produce annual revenues from water sales of $94,334[7] based upon its adjusted test-period operations.

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[4] $.0555 per mile x 3,266 miles = $1,812.63.

[5] $1,813 + $12,965 = $14,778.

[6] $1,813 (Increase in Transportation Expense) + $81,201 (Previously Determine Total Operating Expense) = $83,014.

[7] $83,014 ÷ 0.88 = $94,334.

4. Based upon Center Ridge's adjusted test-period operations, a monthly rate of $22.79[8] will produce the level of annual revenues necessary to meet its reasonable operating expenses and depreciation expense and provide for reasonable equity growth.

IT IS THEREFORE ORDERED that:

1. Center Ridge's application for rehearing is granted in part and denied in part.

2. Center Ridge is authorized to assess a monthly rate of $22.79 for water service provided on and after the date of this Order.

3 Within 20 days of the date of this Order, Center Ridge shall file a revised tariff sheet with the Commission that reflects the rate approved in this Order.

4. Within 20 days of the date of this Order, Center Ridge shall file with the Commission a written report in which it states the total amount refunded, the method by which refunds were made (e.g., payment or billing credit), and the date on which refunding was completed.

5. Any documents filed pursuant to ordering paragraph 4 of this Order shall reference the number of this case and shall be retained in the utility's general correspondence file.

[8] $94,334 ÷ (345 bills x 12 months) = $94,334 ÷ 4,140 bills = $22.79 per month.

By the Commission

ENTERED

AUG 23 2012

KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:

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